SPTRFA

Member News

www.sptrfa.org

A Newsletter from The St. Paul Teachers' Retirement Fund Association *April 2012*

Investment Viewpoint

Investment Performance

While the global political, monetary and even climate conditions are at best unsettling, stock markets are having a "rip-roaring" time since recovering from last fall's downturn. However, long term capital market forecasts remain cautious. Should things continue on the current pace, the fiscal year (ending June 2012) could end up reasonably well after a very rough start. The prior fiscal year proved to be one of our top investment performances (slightly over 25%). By the end of February, the Fund, performance-wise, had moved into positive territory, as the chart indicates to the right.

As we all know, a lot can happen in a short time, and one cannot count on the market doing the expected. It usually is just the opposite. Last year, 2011, the market adage of "sell in May and go away" again held as true counsel. From May 1 through the summer months, domestic equities suffered through a very tortuous descent, bottoming out around September 30. Who knows what may be in store this spring.

Can the markets sustain this rebound when the world conditions are so challenging? That… is the $64 question! For the present, many market observers feel stocks can defy a near-term downward pull. With the apparent ability to look past the world's serious financial chaos, particularly Europe, investors have chosen to focus on some of the better growth reports in years that have emerged from the nation's (and to some degree the world's) corporate balance sheets.

Annual growth rates of 10-15% and even greater, along with growing accumulations of free cash, have fattened corporate coffers while serving to raise corporate stock forecasts.

The current portfolio remains heavily dependent on equities, incorporating a mix of both domestic and non-US securities. Fixed income holdings represent an approximate 20% weighting. However, bonds have more than achieved their expected contribution to the portfolio by not only dampening risk but surprisingly providing a solid return, as well.

Going forward, most expect this bull market in bond prices to gradually reverse as interest rates can only go one way from here and that's higher, which translates into weaker bond prices as yields increase. The overhanging amount of debt in this country will inevitably generate inflationary signs to drive interest rates. This has been rumored for several years now and still bond rates have remained low, largely due to Federal intervention. When that stops, which it will, bond performance could suffer. ■

Investment Performance
Fiscal Year to Date, through February 2012

Domestic Equity Equity Benchmark	**2.7** 2.9
Domestic Fixed Income BC Aggregate Index Benchmark	**6.5** 6.4
International Equity MSCI EAFE Index Benchmark	**-4.6** -6.2
Real Estate NCREIF Total Index Benchmark	**5.8** 7.9
Total Fund (Net of Fees) Composite Benchmark	**1.5*** 1.3

* Does include a minor allocation to Private Equity / Venture Capital

This article was written by the Executive Director, Mr. Doane. You can read "News from the Director," online at www.sptrfa.org.

NEWS From the Director

Board of Trustee Voting Results

from Annual Meeting of the Members

Congratulations to the elected SPTRFA trustees, **Lori Borgeson**, **Mike McCollor***, and **Karen Odegard***! Board members are elected each January at the Annual Meeting of the Members. Members interested in running for a position on the Board of Trustees must file for the election by the second Friday of each November. Contact the SPTRFA office or go online for details.

*Incumbents

Three Year Term	Votes
Mike McCollor	1085
Karen Odegard	1002
Lori Borgeson	996
Frank Feinberg	556
Vicci Johnson	1
Marty Gaslin	1
Theodore Eckman	1

The SPTRFA Staff and Board of Trustees would like to acknowledge the tenure of Dr. Erma McGuire. She served as a trustee for 18 years (1994-2012) and chose to retire from the SPTRFA Board of Trustees. The SPTRFA expresses its appreciation for her dedication to pension fund issues and gratitude for her service as a trustee, and former Board Vice-President. ■

Legislative Update

The SPTRFA enjoyed a very favorable result from the work of this session's Legislative Commission on Pensions and Retirement (LCPR), but, as always, some tough sledding remains.

Following the LCPR hearings, an Omnibus Pension Bill, HF 2199, containing a compendium of the favorably acted upon items, was approved by the Commission. Next steps included both the House and Senate Government Operations Committees.

After that, the House and Senate Ways and Means Committees will give it their consideration before the bill arrives on the floor for action by the full House and then the Senate, and then to the Governor.

If all these hurdles are surmounted, there always remains the question as to whether the Governor will sign the bill. At this point in the process, it is still too early to assume an outcome.

Within the Omnibus pension bill are several items that are of interest to SPTRFA. One is a provision that would expand our investment authority. Currently, the SPTRFA investment portfolio is limited to no more than 20% of its total commitments invested in areas such as real estate, private equity, venture capital, emerging market equity, high yielding bonds and so forth. While this limitation has not previously hamstrung prior asset allocations, the Board's newly adopted portfolio mix calls for increases, over time, to these diversifying asset classes. These planned portfolio modifications are the result of a recently completed Asset Liability Study. A breakdown of the current and proposed asset mixes may be found on the website: www.sptrfa.org

The key provision in the Pension Bill calls for a reduction in the Plan's target rate of investment return, also called the "discount rate". This rate is set by the Legislature. Currently this assumed annual rate of return stands at 8.5% for the state's major public pension plans, including SPTRFA. This means that to meet all present and future liabilities, based on statutory contribution rates and plan design, the investment portfolio is expected to achieve an average 8.5% per year. To date, over its long history, SPTRFA has achieved that level.

With the current view that markets going forward may be less favorable, many states have been revising downward their discount rates. Minnesota currently has among the highest assumed rates of return.

Under the pension bill, this rate would be lowered from 8.5% to 8% on July 1, 2012. The present language calls for a comprehensive review of this rate in five years. This assessment will include the Plans' actuarial projections along with an outlook for investment conditions to determine if the rate needs further adjustment (up or down) at that time. The default for no action at that point would be for the rate to return to the 8.5% level. It is this "long term" or "ultimate rate" that has proven to be the more delicate of the provisions and could be the stumbling block in the end.

The importance of the level of the discount rate is its impact on Plan funding levels. The lower discount rate translates to a more adverse impact on liabilities, since it would be more difficult to meet future obligations with lower rather than higher investment returns. However, it is important to set a level that is realistic to avoid overreaching with Plan investments. If investment returns prove insufficient to meeting long term needs, systems would be then faced with either increasing contribution levels or scaling back benefits, or some combination of all of the above.

All parties to this issue are searching for the same desired end result, namely a financially sound, effectively operating defined benefit pension system capable of meeting its current and future long term obligations. It becomes an issue of debate as to how to best accomplish that result.

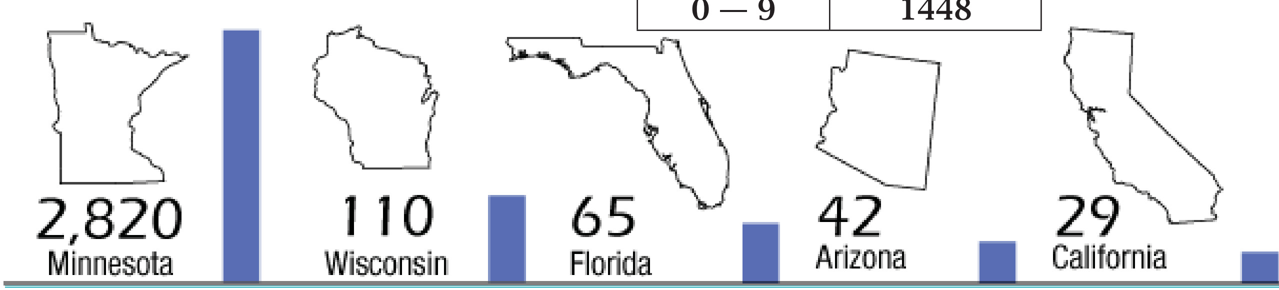
Fun Fund Facts

SPTRFA has a total of **3,234** Retirees! ***The Top Ten States!*** Below is a list of the most popular states our members choose to live in after they retire.

Range of Years in Retirement

Years	*Current Retirees*
30 — 39	**60**
20 — 29	**358**
10 — 19	**1016**
0 — 9	**1448**

Are you a retired member of SPTRFA?
We would love to hear from you! We are looking to spotlight retired members in SPTRFA Newsletter publications. Call us at (651)642-2550 or email our Communications team: info@sptrfa.org.



Texas - 19
Nevada - 14
Georgia - 12
South Dakota - 11
Colorado - 10